

Message Text

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ACTION ARA-10

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TAGS: EGEN, UY

SUBJ: ECONOMIC REFORMS CONTINUE

1. SUMMARY: THE GOU RECENTLY ANNOUNCED A SIGNIFICANT REDUCTION IN THE PRODUCTS COVERED BY PRICE CONTROLS AND INDICATED PLANS TO SHIFT THE CONTROL AGENCY, COPRIN, TO AN ADVISORY STATUS UNDER THE MINISTRY OF ECONOMY AND FINANCE. IN ANOTHER MOVE, THE CENTRAL BANK ANNOUNCED THAT STARTING APRIL 1 BANK INTEREST RATES WOULD BE PERMITTED TO FLUCTUATE FREELY UNDER A MAXIMUM ESTABLISHED BY THE CENTRAL BANK. IT WAS ALSO ANNOUNCED THAT THE GOU LEGISLATIVE BODY, CONSEJO DE ESTADO, WOULD BEGIN CONSIDERING DRAFT LAWS TO REFORM URUGUAY'S OVERBLOWN SOCIAL SECURITY SYSTEM AND SIMPLIFY THE IMPORT TARIFF STRUCTURE. END SUMMARY.

2. URUGUAY'S PERVERSIVE PRICE CONTROL SYSTEM HAS BEEN PARTIALLY DISMANTLED BY THE REMOVAL OF A LONG LIST OF ITEMS FROM CONTROLS. THESE INCLUDE RESTAURANT PRICES, MOST PROCESSED FOODS AND DRINKS, AS WELL AS WOOD AND GLASS PRODUCTS. MOST MANUFACTURED PRODUCTS, PLASTICS AND COSMETICS WERE ALSO FREED. REMAINING UNDER CONTROLS

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ARE RAW FOODS, HOUSEHOLD ITEMS, AS WELL AS TIRES, TEXTILES, CLOTHING,

CONSTRUCTION MATERIALS AND SOME METAL PRODUCTS. THE STATED INTENTION WAS TO KEEP CONTROLS ON FAMILY MARKET-BASKET ITEMS, BUT IN FACT THE LIST IS MORE EXTENSIVE THAN THAT.

3. UNDER A MAXIMUM OF 62 PERCENT PER ANNUM (PLUS TAXES IMPOSED ON LOANS), THE CENTRAL BANK HAS ANNOUNCED THAT BANK INTEREST RATES WILL BE PERMITTED TO FLUCTUATE FREELY. SINCE MOST COMMERCIAL LOAN RATES ARE ALREADY AT PRECISELY THIS MAXIMUM, AND TIGHT MONEY POLICY LIMITS AVAILABILITIES, LOAN RATES SHOULD NOT BE AFFECTED IMMEDIATELY. THE REAL EFFECT OF THE DECREE IS TO COMPLETELY FREE DEPOSIT RATES (CURRENT ACCOUNT INTEREST PAYMENT IS FORBIDDEN). CONSEQUENTLY, THERE SHOULD BE MORE COMPETITION FOR SAVINGS DEPOSITS. OVER THE LONGER TERM, IF INFLATION RATES DECLINE THERE COULD BE COMPETITION ON THE LOAN SIDE TOO. THE CB'S INTENTION IS TO REDUCE URUGUAY'S EXCESSIVE BANK INTERMEDIATION COSTS. FURTHERMORE, NEW RATES ON CB DISCOUNTS WILL APPLY TO ALL COMMERCIAL BANKS, INCLUDING THE GOU-OWNED BANK OF THE REPUBLIC. THIS IS ANOTHER STEP IN THE LONG PROCESS OF BRINGING THE BOR MORE FIRMLY UNDER THE CONTROL OF THE CB.

4. A DRAFT LAW ABOUT TO BE SUBMITTED TO THE CONSEJO DE ESTADO IS INTENDED TO REMOVE SOME OF THE MORE EXCESSIVE BENEFITS OF THE SOCIAL SECURITY SYSTEM. SPECIFICALLY, EARLY RETIREMENT FOR MOTHERS AND DISCHARGED EMPLOYEES WILL NOT BE ALLOWED AND A MINIMUM AGE OF 55 FOR WOMEN AND 60 FOR MEN WILL BE ESTABLISHED. HOWEVER, NO ONE PRESENTLY RECEIVING BENEFITS WILL BE REMOVED FROM THE ROLLS, AND CONSEQUENTLY, THE SHORT RUN IMPACT OF THE LAW IS NOT LIKELY TO BE IMPORTANT. ANOTHER PROPOSED LAW WOULD REPLACE URUGUAY'S CURRENT MAZE OF IMPORT CHARGES AND SURCHARGES WITH A SIMPLE TARIFF SYSTEM. WE ARE TOLD THIS WILL HAVE A BASIC CHARGE OF 25 PERCENT AD VALOREM WITH

MULTIPLES OF THE BASIC RATE APPLYING TO CATEGORIES OF IMPORTS THE GOVERNMENT WISHES TO DISCOURAGE. EMBASSY WILL REPORT FURTHER ON THESE CHANGES AS THEY DEVELOP.

5. COMMENT: THESE RECENT DEVELOPMENTS INDICATE THE GOU ECONOMIC PROGRAM IS PROCEEDING. ON ANOTHER FRONT, A CURRENTLY UNRESOLVED DISPUTE INVOLVED THE POLICY TO BE ADOPTED FOR THE AUTOMOBILE SECTOR. STARTING SOME MONTHS AGO (SEE REFTEL) THE GOU BEGAN TO REDUCE THE EXCEPTIONALLY HIGH LEVELS OF PROTECTION THAT HAD BEEN GIVEN THIS INDUSTRY. NOW PLANS TO EXTEND LIBERALIZATION TO ASSEMBLED AUTOMOBILE LIMITED OFFICIAL USE

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IMPORTS HAVE PROVOKED A VIGOROUS LOBBYING EFFORT BY THE VEHICLE MANUFACTURERS, WHICH WE UNDERSTAND HAS THE SUPPORT OF SOME MILITARY OPINION. THE PROTECTIONIST VIEW IS ALSO DOMINANT IN THE BOR WHICH MUST IMPROVE IMPORT APPLICATIONS. AS A RESULT WE UNDERSTAND THE GOU DECREE REPORTED IN REFTEL HAS IN FACT NEVER BEEN IMPLEMENTED, AS THE BOR HAS REFUSED TO PROCESS APPLICATIONS. A RESOLUTION OF THIS IMPASSE IS STILL PENDING. HAAHR

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